

CREDIT SUPPLY SURVEY

(Trends in 1st Quarter 2021 & Outlook for 2nd Quarter 2021)

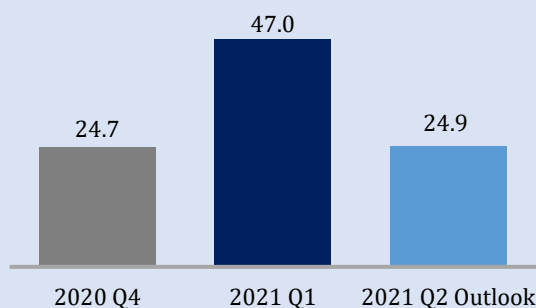


STATISTICS DEPARTMENT
CENTRAL BANK OF SRI LANKA

Issued on 06th May 2021

Executive Summary

Willingness to Lend



- Banks' overall willingness to lend increased at a higher pace in 2021 Q1 compared to 2020 Q4 and all lending categories (i.e. retail, corporate, SME and SOE) reported an increase in willingness to lend.
- Relaxations of lending criteria based on the expectations regarding improved financials as per the progress in economic activities with the ease of COVID-19 pandemic in 2020 Q1 steered this further increase in willingness to lend.
- In addition, the availability of excess liquidity in the market also contributed towards this increase.
- Meanwhile, willingness to lend is expected to increase further in 2021 Q2, yet at a slower pace.

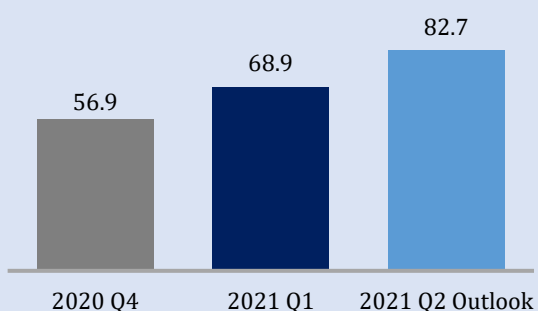
Key to Interpretation

- *Index value > 0 : increase*
 - *Index value < 0 : decrease*
 - *Index value = 0 : unchanged*
- on quarter-on-quarter (Q-o-Q) basis*

The Credit Supply Survey covers all Licensed Commercial Banks (LCBs) and Licensed Specialised Banks (LSBs), from which information on all lending categories are obtained.

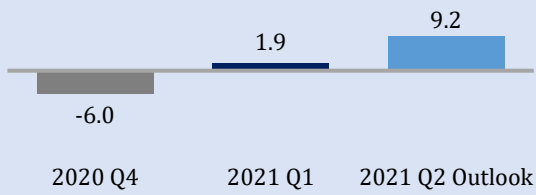
Indices are calculated as 'Diffusion Indices', that take values between -100 and 100, by weighting responses of the licensed banks using exposure of each bank to Total Gross Loan Portfolio of the banking sector.

Demand for Loans



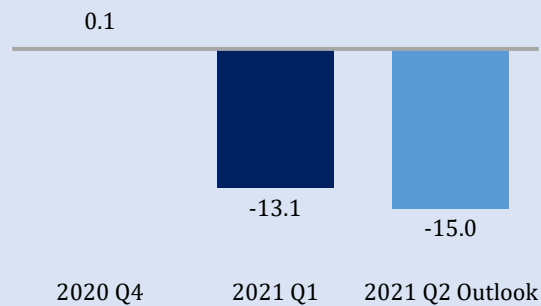
- The overall demand for loans increased at a higher pace in 2021 Q1 compared to 2020 Q4.
- Prevailing low interest rates, opportunity to refinance at low rates and Government directions to uplift local industries amidst import restrictions steered this further increase in demand for loans.
- Further, improved investor confidence amidst gradual recovery of the economy has also played a role in this increase.
- Accordingly, loans demanded by the corporate category for the purposes of working capital and debt restructuring as well as for business expansions also showed an increase in 2021 Q1.
- Meanwhile, demand for loans is expected to increase at a higher pace in 2021 Q2 with expected further improvements in investor confidence and availability of low cost of funding.

Non-Performing Loans (NPL)



- Overall number of NPL increased in 2021 Q1 compared to 2020 Q4.
- Meanwhile, NPL are expected to increase at a higher pace in 2021 Q2 with the expiration of moratorium facilities amidst continued uncertainty in income levels.

Rejected Loan Applications

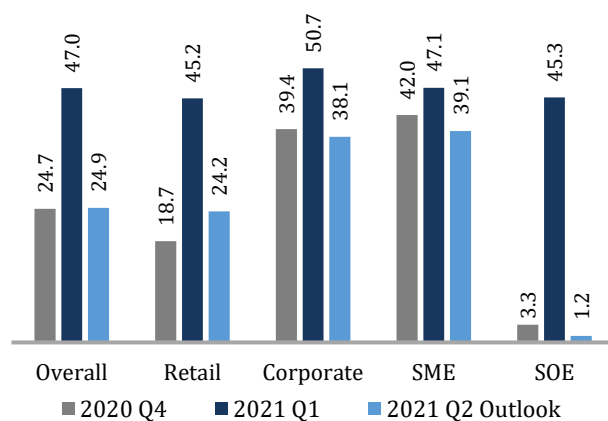


- Overall number of rejected loan applications decreased in 2021 Q1 compared to 2020 Q4 in line with the increase in willingness to lend.
- Improved cash flows with renewal of business drive led rejections to decrease further.
- Meanwhile, rejections are expected to decrease further in 2021 Q2.

Detailed Report

Willingness to Lend

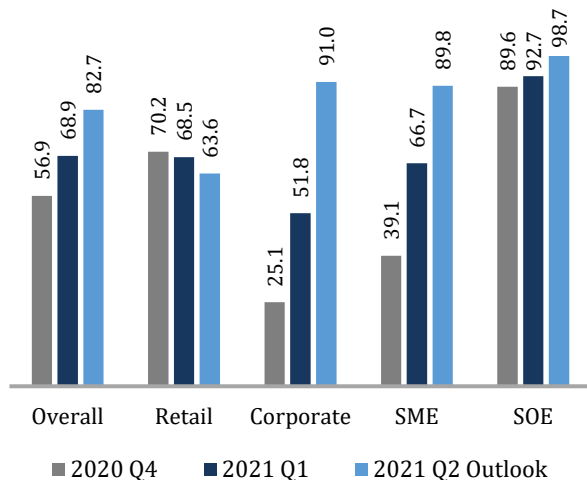
Willingness to Lend by Category



- Banks' overall willingness to lend increased at a higher pace in 2021 Q1 compared to 2020 Q4.
- This increase was due to the increase in willingness to lend towards all lending categories (i.e. retail, corporate, SME and SOE).
- Relaxations of lending criteria based on the expectations regarding improved financials as per the progress in economic activities with the ease of COVID-19 pandemic during the quarter steered this further increase in willingness to lend.
- In addition, the availability of excess liquidity in the market also contributed towards this increase.
- Meanwhile, willingness to lend is expected to increase further in 2021 Q2, yet at a slower pace.

Demand for Loans

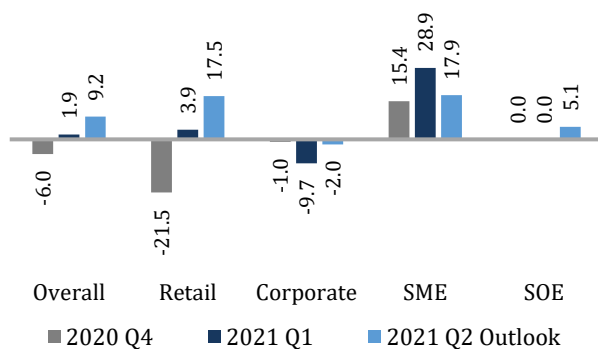
Demand for Loans by Category



- The overall demand for loans increased at a higher pace in 2021 Q1 compared to 2020 Q4.
- Increase in demand for loans was observed across all lending categories.
- Prevailing low interest rates, opportunity to refinance at low rates and Government directions to uplift local industries amidst import restrictions steered this further increase in demand for loans.
- Further, improved investor confidence amidst gradual recovery of the economy has also played a role in this increase.
- Accordingly, loans demanded by the corporate category for the purposes of working capital and debt restructuring as well as for business expansions also showed an increase in 2021 Q1.
- Meanwhile, demand for loans is expected to increase at a higher pace in 2021 Q2 with expected further improvements in investor confidence and availability of low cost of funding.

Non-Performing Loans (NPL)

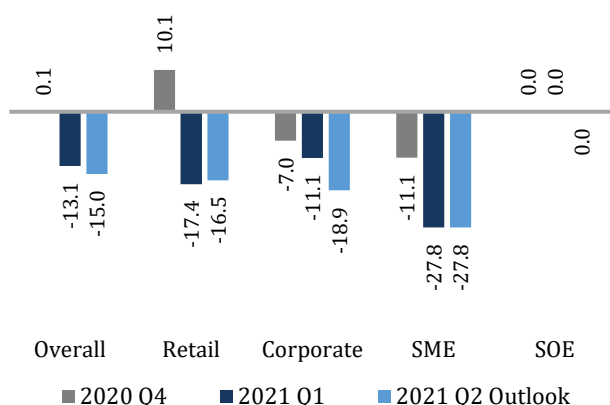
Non-Performing Loans by Category



- Overall number of NPL increased in 2021 Q1 compared to 2020 Q4.
- Increase in NPL was observed in both retail and SME sectors.
- However, corporate sector NPL continued to decline with rescheduling of loans and extension of moratorium facilities until 31 March 2021.
- Meanwhile, NPL are expected to increase at a higher pace in 2021 Q2 with the expiration of moratorium facilities amidst continued uncertainty in income levels.

Rejected Loan Applications

Rejected Loan Applications by Category



- Overall number of rejected loan applications decreased in 2021 Q1 compared to 2020 Q4 in line with the increase in willingness to lend.
- Rejected loan applications of retail, corporate and SME categories observed a decline, while that of SOE category remained unchanged.
- Improved cash flows with renewal of business drive led rejections to decrease further.
- Meanwhile, rejections are expected to decrease further in 2021 Q2.